VAN NESS INDUSTRIES LTD.

Annual Report 1969

557,030
398,381
158,649

VAN NESS INDUSTRIES LTD.

and Subsidiary Companies

REPORT TO SHAREHOLDERS

The financial statements for the year ended September 30, 1969, reflect the results of unforeseen and unusual developments encountered by the Company. The net loss from operations was $398,381, while the total loss for the year, including other charges of $158,649, was $557,030. By comparison, the first three months of the current fiscal year ending December 31, 1969, shows a loss of $19,490 compared to a loss of $55,345 for the same period in 1968, which latter figure does not reflect any inventory or other adjustments.

The heavy cost of research and development of the refuse collecting equipment, the one-month strike at the Burlington plant of The Wilson Motor Bodies Limited, and a large inventory adjustment are the main factors which caused the loss. The year end inventory taking at the Burlington plant indicated some obsolescence and improper costing, and as a consequence, it became necessary to bring the book inventory at the end of September down to realistic values. This adjustment was approximately $116,000.

On July 30, 1969, the Company purchased Lloydaire Limited, a manufacturer of registers, grilles and air diffusion equipment for conditioned air systems, and is the largest independent Canadian manufacturer. For the fiscal year ending July 31, 1969, the company made $181,805 before tax and $91,800 after tax profit. This is not reflected in the accounts of Van Ness as at September 30 — only the months of August and September are incorporated. Lloydaire is operating very profitably and has promise of excellent continued growth. Lloydaire has licensed a manufacturer in the United Kingdom for its product line and is currently concluding a license agreement for Spain. It is anticipated that manufacturers will be licensed in other countries.

In December, 1968, the Company acquired a 50 per cent interest and sole management and licensing discretion in the patents and patent applications filed in approximately twelve countries, including Canada and the U.S.A., with regard to a new design of refuse packer. The advantages of this unit are: a payload capacity unmatched by anything else on the market — up to 100 per cent more payload per cubic yard; low initial cost; low operating cost; one-man operation; easy maneuverability due to short wheelbase; unique dual ram compaction with automatic cycling, and; silent, sanitary operation for night service. The unit is produced in a truck mounted model called the "Smithpac" and a trailer unit having electric or gas power for stationary operations called the "Portapac". These refuse handling units are ideal for domestic garbage collection, both town and country, as well as mobile or stationary operations for institutions, shopping centres, apartment buildings, supermarket chains, factories, parks and recreation areas.

Because of the potential market for the refuse packer units, a large amount of money was spent on perfecting the equipment to the point where it would be fully operational and for investigating market approach. The de-bugging took much longer and was far costlier than anticipated; however, the product line is now fully operational as evidenced by the growing number of successful and enthusiastic users.

We foresee a great future for this refuse collecting line based on the rapid growth of the industry in both Canada and the U.S.A. The problems of solid waste disposal form part and parcel of the pollution control problem which is receiving the closest attention of all levels of government and industry. The United States generates over four hundred million tons of solid waste annually, and the amount continues to soar within that affluent society. The entire solid waste industry accounts for $4.5 billion annually, with a projected overall increase to $14.5 billion within the next decade. Whether buried or incinerated, solid waste must be transported to disposal sites, and this creates a very large market for new refuse handling trucks annually. The demand for stationary refuse compactors is increasing rapidly for the handling of solid waste generated by commercial and industrial firms, hospitals, shopping centres, supermarkets and apartment buildings. We expect to obtain a reasonable share of this expanding market.

The Company obtained a three-year option to acquire all the issued outstanding shares of Jasa Manufacturing Company Limited in return for a $150,000 venture loan secured by a first mortgage on all of the assets of that company. Jasa manufactures an all terrain vehicle (ATV) called the "Gip-Sea", a six-wheeled amphibious vehicle powered by a 12 or 24 H.P. engine capable of speeds up to 40 m.p.h. The Gip-Sea is a means of transportation over any type of surface, including water, sand, snow, muskeg and swamp, and is directed to the leisure time market. Everyone is familiar with the growth of the snowmobile, which is restricted to winter leisure use and only in the snow areas. The Gip-Sea ATV is an all-year-round vehicle with good steering capability and will float. It is estimated that within four years the market for ATV's for the U.S.A. and Canada will approximate 500,000 units per year, and they are exportable to the U.S.A. duty free. The Gip-Sea, although in the early stages of development and production, has promise of an excellent potential.

Through two private placements of treasury stock and the exercise of warrants, the Company obtained $1,870,700 of equity financing. The proceeds of the financing were used to retire the $300,000 First Mortgage Debenture, $100,000 of the Second Mortgage Debenture, as well as the purchase of Lloydaire Limited for $675,353. The balance of the $600,000 of Second Mortgage Debenture was converted to shares.

We are optimistic for the future for the reasons set forth in the following brief summary of our position as we now see it. We are confident that the operations of Lloydaire will show an increase in sales and profits over last year, and as there are available tax loss carry forwards to apply against such profits, no income tax should therefore be payable. The heavy expenditure on development of the refuse handling equipment is over; orders are commencing to come in as a result of the successful operation of the equipment by enthusiastic users, and; we are working on a broader method of distribution throughout Canada and the U.S.A. The Company's venture in the Gip-Sea all terrain vehicle looks like a very promising prospect. The back-order position for truck body sales is running at approximately $500,000. The working capital position remains strong, being in excess of $1 million.

On behalf of the Board of Directors,

J. M. BOYD,
President.

Dated 9th March, 1970.

VAN NESS INDUSTRIES LTD.
and Subsidiary Companies

VAN NESS INDUSTRIES LTD.
AND SUBSIDIARY COMPANIES

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Six months ended March 31, 1970
(with comparative figures for 1969)

	1970	1969
Funds Provided (Applied)		
Net Profit (Loss)	$ (168,094)	$ (232,413)
Charges (Credits) not requiring cash funds:		
Depreciation	52,515	23,663
Amortization of re-organization expense	19,676	7,017
Loss (Gain) on sale of fixed assets ..	186	(7,125)
Funds Provided (Applied) due to operations	$ (95,717)	$ (208,858)
Decrease in Receivables not due in one year ..	$ 66,231	$ 43,666
Proceeds on sale of fixed assets	300	42,000
Decrease in other assets	1,671	—
Issuance of 460,000 common shares	—	1,159,994
	$ (27,515)	$1,036,802
Funds Applied		
Reduction of Long Term Liabilities ..	$ 964	$ 699,994
Purchase of Capital Assets	55,938	13,626
Increase in Other Assets	—	1,379
	$ 56,902	$ 714,999
Increase (Decrease) in Working Capital	$ (84,417)	$ 321,803

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VAN NESS
INDUSTRIES LTD.

REPORT TO SHAREHOLDERS
Six months ended
March 31st, 1970

See accompanying notes to financial statements.

557,030
398,381
158,649

VAN NESS INDUSTRIES LTD.
and Subsidiary Companies

REPORT TO SHAREHOLDERS

The financial statements for the year ended September 30, 1969, reflect the results of unforeseen and

May 29, 1970.

REPORT TO SHAREHOLDERS:

In order to properly present the operating results for the first six months ended March 31, 1970, it has been necessary to re-state the operating results for the first six months to March 31, 1969, all on the same basis as for the year ended September 30, 1969. To do this, the year-end inventory adjustment and the allowance for possible loss on advances to an associated company, H. E. Smith, Inc., was pro-rated to sales. The result is a loss of $168,094 to March 31, 1970, compared to a loss of $232,413 to March 31, 1969. The first quarter results to December 31, 1969, were understated by $55,651 as a result of an accounting error and allowance for possible loss on advances to H. E. Smith, Inc., so that the operating loss should have been $75,141, not $19,490.

The high operating costs of last year continued through the first half of the current year. However, as a result of continued cost reductions, April operating losses were $12,108, including an allowance for the possible loss of $2,099 on advances to H. E. Smith, Inc., compared to a loss of $51,926 in April, 1969, on a re-stated basis.

While the sale of truck bodies continues at a good level, a decision has been made to divest the Company of this operation and the business is being actively offered for sale. This will permit an expanded effort on the Smithpac and Portapac refuse handling equipment. At the same time, the 103,000-square-foot Burlington plant has been offered for sale or lease because it is too large for the Company's level of operations resulting in very high operating costs.

The Lloydaire division, which manufactures registers, grilles, and air diffusion equipment for conditioned air systems, did well in the first quarter, but profits declined in the second quarter, a seasonal occurrence. Sales are down in the residential line due to the very low number of housing starts. This division will be profitable for the year.

We are very pleased with the recent results of the Smithpac refuse handling equipment. Orders received for the three-month period since 1st March, 1970, total twenty-four, compared to eight for the previous ten months. A growing number of cities and towns in Canada and the U.S.A. are now using Smithpacs, as well as various government agencies and refuse haulers.

With regard to the all-terrain vehicle program under Jasa Manufacturing Ltd., we became dissatisfied with the way operations were being handled and accordingly made a decision to protect our $150,000 investment. We have taken over the entire operation and are proceeding with product development and assessment of our position.

VAN NESS INDUSTRIES LTD. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Six months ended March 31, 1970
(with comparative figures for 1969)

	1970	1969
Income		
Net Sales	$1,500,898	$ 860,887
Interest Received	19,768	36,419
Other	19,900	22,301
Total Sales and Other Income	$1,540,566	$ 919,607
Deduct		
Cost of Goods Sold	$1,228,255	$ 804,604
Selling, Administrative and general Expenses	392,939	220,535
Interest on Long Term Debt	—	23,804
Interest on Bank	29,797	16,155
Amortization of re-organization expenses	19,676	7,017
Allowance for possible loss on advances to H. E. Smith, Inc.	37,993	79,905
Total Expenses	$1,708,660	$1,152,020
Net Profit (Loss) for Period	$ (168,094)	$ (232,413)

Dated 9th March, 1970.

President.

VAN NESS INDUSTRIES LTD.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND DEFICIT

Year ended September 30, 1969

(with comparative figures for 1968)

	1969	1968
Net sales	$2,131,939	$3,115,231
Cost of sales	1,903,711	2,575,893
Gross profit	228,228	539,338
EXPENSES:		
Selling, administrative and general	617,381	1,326,106
Amortization of development expense	9,228	—
	626,609	1,326,106
Net loss from operations	398,381	786,768
OTHER CHARGES:		
Interest on long-term debt	26,929	143,817
Interest on bank and other short-term liabilities	27,294	73,405
Amortization of reorganization expense	26,694	14,034
Allowance for possible loss on advances to H. E. Smith, Inc.	175,000	—
	255,917	231,256
	654,298	1,018,024
OTHER INCOME:		
Interest	66,804	25,791
Equipment rentals	—	20,527
Miscellaneous, including net royalties	38,564	69,009
	105,368	115,327
Net loss before taxes on income and extraordinary items	548,930	902,697
Taxes on income (subsidiary company)	8,100	—
	557,030	902,697
EXTRAORDINARY ITEMS:		
Reduction of liabilities pursuant to a proposal filed under Part III of the Bankruptcy Act accepted by the creditors, net of trustee and other expenses	—	1,297,913
Deduct:		
Loss on sale of assets including farm and tracked vehicle divisions	—	75,778
	—	1,222,135
Net loss (profit)	557,030	(319,438)
Deficit at beginning of year	491,775	811,213
Deficit at end of year	$1,048,805	$ 491,775

See accompanying notes to financial statements.

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Consolidated Balance S

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ASSETS

	1969	1968
Current Assets:		
Cash	$ 56,202	$ 31,725
Short-term deposits	450,000	—
Accounts and notes receivable less allowance for doubtful accounts (1969 — $66,326; 1968 — $92,628)	800,612	656,404
Inventories at the lower of cost or net realizable value	854,178	411,041
Advances to partially owned company H. E. Smith, Inc., less allowance for possible loss	188,718	3,400
Prepaid expenses and deposits	11,399	2,515
Total Current Assets	2,361,109	1,105,085
Notes receivable, not due within one year	161,580	277,906
Other investments, at cost (quoted market value $37,100)	74,237	—
Investment in shares, at cost, of partially owned company H. E. Smith, Inc.	2	—
Fixed Assets (note 2):		
Buildings	610,619	621,166
Machinery and other equipment	909,305	440,757
	1,519,924	1,061,923
Less accumulated depreciation	955,233	611,587
	564,691	450,336
Land	96,707	120,030
	661,398	570,366
Other Assets:		
Goodwill, at cost	51,696	51,696
Patents, trademarks, etc., at cost less amounts amortized	167,105	5,206
Deferred product development, less amounts written off	113,946	33,456
Reorganization expenses, less amounts written off	67,030	43,110
	399,777	133,468
Excess of cost of investment in subsidiary company over underlying equity at time of acquisition	412,100	—
	$4,070,203	$2,086,825

See accompanying no

AUDITORS' REPORT

We have examined the consolidated balance sheet of Van Ness Industries Lt
profit and loss and deficit and source and application of funds for the year then ende
tests of accounting records and other supporting evidence as we considered necessa

In our opinion, these consolidated financial statements present fairly the fi
of their operations and the source and application of their funds for the year then
consistent with that of the preceding year.

Toronto, Ontario
February 20, 1970

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LIABILITIES

	1969	1968
Current Liabilities:		
Due to bank — demand loans and overdraft (secured — note 3)	$ 276,634	$ 215,000
Accounts payable and accrued expenses	582,825	123,939
Due to trustee	—	64,125
Taxes payable other than income	86,112	28,632
Income taxes payable	105,640	—
Note payable (secured by short-term deposits of $330,000)	275,000	—
6¼% collateral trust debentures	—	300,000
Total Current Liabilities	1,326,211	731,696
Long-Term debt:		
Amount due for patents acquired (note 4)	148,793	—
8% second mortgage bonds due October 1, 1969	—	699,994
Deferred income taxes	26,400	—
Shareholders' Equity:		
Capital stock (note 5):		
Class "A" non-voting fully participating shares without nominal or par value. Authorized 4,000,000; issued — none	—	—
Common shares without nominal or par value. Authorized 2,000,000; issued 1,234,671 shares (1968 — 605,471 shares)	3,593,564	1,122,870
Paid-in surplus	24,040	24,040
	3,617,604	1,146,910
Deficit	1,048,805	491,775
	2,568,799	655,135
Commitments and contingent liabilities (notes 6 and 7)		
	$4,070,203	$2,086,825

On behalf of the Board:

J. M. BOYD, Director

M. R. GOLDHAR, Director

financial statements.

HE SHAREHOLDERS

subsidiary companies as of September 30, 1969 and the consolidated statements of ır examination included a general review of the accounting procedures and such he circumstances.

position of the company and subsidiaries at September 30, 1969 and the results in accordance with generally accepted accounting principles applied on a basis

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

VAN NESS INDUSTRIES LTD.

and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended September 30, 1969

(with comparative figures for 1968)

	1969	1968
FUNDS PROVIDED:		
Issue of capital stock for cash	$1,870,700	$ —
Proceeds from sale of capital assets	52,018	642,333
Decrease in receivables not due within one year	116,326	—
	2,039,044	642,333
FUNDS APPLIED:		
Net loss (profit)	557,030	(319,438)
Charges not requiring cash funds:		
Depreciation	54,120	(85,274)
Amortization of patents, trademarks, deferred product development and reorganization expenses	49,117	(14,266)
	103,237	(99,540)
Add (deduct) gain on sale of fixed assets	(8,472)	219,019
	94,765	119,479
Total funds applied to (provided by) operations	462,265	(199,959)
Purchase of outstanding capital stock of Lloydaire Limited	675,353	—
Less working capital of Lloydaire at time of acquisition	151,262	—
	524,091	—
Investment in shares of H. E. Smith, Inc.	2	—
Purchase of other investments	74,237	—
Purchase of fixed assets and patents	64,899	21,137
Deferred product development expenditures	101,427	33,456
Reorganization expenditures	50,614	—
Reduction of long-term liabilities	100,000	1,230,927
Increase in receivables not due within one year	—	275,087
	391,179	1,560,607
Total funds applied	1,377,535	1,360,648
Increase (decrease) in working capital	$ 661,509	$ (718,315)

See accompanying notes to financial statements.

VAN NESS INDUSTRIES LTD.

and Subsidiary Companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1969

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Van Ness Industries Ltd. and its wholly-owned subsidiary companies, Van-Wilson Limited, Smithpac Canada Ltd. (formerly R-N Acceptance Limited), Wilson Motor Bodies Inc., The Wilson Motor Bodies Limited, Rem Engineering Consultants Co. Ltd. (inactive) and Lloydaire Limited. Lloydaire Limited was acquired on July 30, 1969 and accordingly the consolidated statement of profit and loss and deficit for the year ended September 30, 1969 includes the results of operations of Lloydaire Limited only for the two months then ended. The comparative consolidated balance sheet at September 30, 1968 and the comparative consolidated statement of profit and loss and deficit for the year then ended do not include the accounts of Lloydaire Limited.

All material inter-company accounts and transactions have been eliminated in consolidation.

2. FIXED ASSETS:

The fixed assets are valued at cost with the exception of certain lands and buildings owned by Van-Wilson Limited which were revalued by the addition of $427,850 representing the excess of the cost of the shares of Van-Wilson Limited over the underlying net book value at date of acquisition. In a prior year the above land and buildings were written down by a charge of $150,000 to retained earnings. Depreciation is being recorded at normal rates on the portion of the net revaluation applicable to buildings.

3. BANK INDEBTEDNESS:

The companies' bank loans are secured by the pledge of inventories and accounts receivable. In addition, assigned demand debentures aggregating $475,000 have been issued to the bank providing for a fixed charge over certain fixed assets and a first floating charge over the remainder of the companies' assets.

4. AMOUNT DUE FOR PATENTS ACQUIRED:

The amount due for purchase of patents represents the balance of the purchase price of a one-half interest in certain patents acquired by a subsidiary. The amount is payable in future years solely from the royalties and license fees produced by the patents.

5. CAPITAL STOCK:

Authorized capital stock:

During the year the company obtained an amendment to its Memorandum of Association changing its authorized capital stock from 660,000 common shares without nominal or par value to 2,000,000 common shares without nominal or par value, and creating 4,000,000 Class "A" non-voting, fully participating shares without nominal or par value.

The common shares may be converted at any time into fully paid Class "A" shares on the basis of one common share for each Class "A" share; provided that no more than 90% of the common shares issued and outstanding as fully paid shall be so converted into Class "A" shares.

Issued capital stock:

During the year the company's issued share capital was increased as follows:

	Common shares without nominal or par value	
	Number of shares	Amount
Balance September 30, 1968	605,471	$1,122,870
Shares issued for cash	467,700	1,806,200
Shares issued in partial satisfaction of the retirement of outstanding 8% second mortgage bonds due October 1, 1969	150,000	599,994
Shares issued for cash upon exercise of warrants	11,500	64,500
	1,234,671	$3,593,564

Of the authorized but unissued common shares 78,500 shares were reserved at September 30, 1969 for issue upon the exercise or conversion of the:

(a) Outstanding share purchase warrants issued in a prior year entitling the holders to acquire 30,000 common shares at $6 per share to January 15, 1970, $7 per share to January 15, 1971 and $8 per share to January 15, 1972.

(b) Warrants issued during the year, in connection with the issue of the 467,700 shares for cash (see above) entitling the holders to acquire 50,000 common shares at $3 per share to March 31, 1974. During the year, 1,500 of these warrants were exercised at $3 per share leaving a balance of 48,500 warrants outstanding at September 30, 1969. The Company may, at its discretion, re-purchase the warrants for 50¢ each.

6. CONTINGENT LIABILITIES:

(a) Under the terms of the agreement covering the acquisition of the shares of Lloydaire Limited the Company has agreed with the former owner of Lloydaire Limited that they will indemnify him in respect of any income taxes that he may be assessed under Section 138A(1) of The Income Tax Act resulting from the sale of the shares of Lloydaire Limited to the Company. At September 30, 1969 the Company is not aware of any amounts that had been assessed in connection with the sale of such shares.

(b) A legal action has been commenced against the Company alleging that certain terms of an agreement were not complied with and as a result remedies are being sought of recision of an agreement entered into involving the purchase of patents by the Company and damages in the amount of $1,500,000. This litigation may not come for trial before the latter part of 1970 or the early part of 1971, and in the opinion of management the legal action is frivolous and has no basis in fact. Accordingly, no amounts have been provided in the accounts for any costs or damages in connection with this action.

7. COMMITMENTS:

The Company and one of its subsidiaries lease certain office and plant facilities at an annual rental of approximately $48,000. The leases expire in 1974.

8. SUBSEQUENT EVENTS:

Subsequent to September 30, 1969, the Company has agreed to make a demand loan of $150,000 to Jasa Manufacturing Company Limited at 7% per annum. The loan is to be secured by a first fixed and floating charge on all of the undertaking, property and assets of Jasa. As a condition of making the loan, the Company has been granted an option to acquire all of the issued capital stock of Jasa for $140,000 which would be satisfied by the issue of 40,000 common shares without nominal or par value of the Company. Such option will be for a period of three years from the date of making of the loan.

9. STATUTORY INFORMATION:

The following amounts are included as charges in the consolidated statement of profit and loss and deficit:

	1969	1968
Depreciation	$ 54,120	$ 85,274
The aggregate remuneration of directors and senior officers under Section 124 of the Companies Act (Alberta)	$ 91,288	$ 87,895

Directors

J. H. BLACK, *Toronto, Ontario*
J. M. BOYD, *Toronto, Ontario*
M. R. GOLDHAR, *Toronto, Ontario*
D. HOFFMAN, *Hamilton, Ontario*

Officers

J. M. BOYD, *President*
M. R. GOLDHAR, *Vice-President*
R. E. SOBIER, *Secretary*
M. G. O'SHAUGHNESSY, *Treasurer*

Auditors

PEAT, MARWICK, MITCHELL & CO.

Registrar and Transfer Agents

CANADA PERMANENT TRUST COMPANY
Toronto and Calgary

Listings

TORONTO STOCK EXCHANGE

Head Office

SUITE 908, 7 KING ST. E.,
TORONTO, ONTARIO